



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE**

Fiscal Year Ended June 30, 2000

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
John P. McCarty, Secretary, Finance and Administration Cabinet
Gene Wilhoit, Commissioner, Department of Education
Robert S. Sherman, Director, Legislative Research Commission
Liz Storey, Executive Director,
Green River Regional Educational Cooperative, Inc.
Board of Directors of the Green River Regional Educational Cooperative, Inc.

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the financial statements of the Green River Regional Educational Cooperative, Inc., Bowling Green, Kentucky, as of June 30, 2000.

We engaged Berger & Ross, PLLC, to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Green River Regional Educational Cooperative, Inc.'s internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

**AUDIT EXAMINATION OF THE
GREEN RIVER REGIONAL
EDUCATIONAL COOPERATIVE**

For the year ended June 30, 2000

Berger & Ross, PLLC
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INDEPENDENT AUDITORS' REPORT

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Board of Directors, Green River Regional Educational Cooperative

We have audited the accompanying financial statements of Green River Regional Educational Cooperative ("GRREC") as of and for the year ended June 30, 2000. These financial statements are the responsibility of GRREC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the property and equipment group of accounts of which should be included to conform with generally accepted accounting principles. The amounts that should be recorded as assets, liabilities, revenues and expenditures from this omitted fund, accounts, and account group are not known. As described in Note 1, the Cooperative's policy is to prepare its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principals. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above presents fairly, in all material respects, the assets, liabilities and fund balances arising from cash transactions of the Green River Regional Educational Cooperative as of June 30, 2000 and the cash receipts and disbursements for the year then ended, on a basis of accounting described in Note 1, which basis has been applied in a manner consistent with that of the preceding year.



Berger & Ross, PLLC

Audit fieldwork completed -
November 17, 2000

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
STATEMENT OF POSITION
June 30, 2000

ASSETS

Cash (Note 2)	\$ 278,103
Accounts Receivable	<u>64,773</u>
Total Assets	<u><u>\$ 342,876</u></u>

LIABILITIES AND FUND BALANCE

Liabilities - Accounts Payable	\$ 41,802	
Fund Balance		
Restricted for Accrued Sick Leave	\$ 12,425	
Unrestricted	<u>288,649</u>	
Total Fund Balance		<u>301,074</u>
Total Liabilities and Fund Balance		<u><u>\$ 342,876</u></u>

The accompanying notes are an integral part of the financial statements.

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
STATEMENT OF ACTIVITIES
June 30, 2000

REVENUES

Title I	\$ 27,423	
ASAP	19,500	
Administrative/Professional Development	294,498	
Effective SCHS 1999	83,500	
Membership Fees	123,514	
Administrative Fees	155,687	
Total Revenues	<hr/>	\$ 704,122

EXPENDITURES

Title I	\$ 18,687	
ASAP	15,084	
Administrative/Professional Development	216,486	
District/Professional Development	10,578	
Effective SCHS 1999	74,128	
Effective SCHS 1998	8,050	
Salaries & Related	238,116	
Operating	30,501	
Bond Principle	311	
Use of Donated Facilities	17,520	
Total Expenditures	<hr/>	629,461

Excess (deficit) of revenues over expenditures	\$ 74,661
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OTHER FINANCING SOURCES (USES)

Donated Facilities	<hr/> 17,520
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Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	\$ 92,181
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Fund Balance July 1, 1999	208,893
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Fund Balance June 30, 2000	<hr/> <hr/> \$ 301,074
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The accompanying notes are an integral part of the financial statements

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2000

CASH FLOWS FROM OPERATING ACTIVITIES	
Excess (Deficit) of Revenues over Expenditures	\$ 92,181
Adjustments to Reconcile Excess (Deficit) of Revenues over Expenditures to Net Cash Provided by Operations:	
(Increase) Decrease in:	
Accounts Receivable	(59,179)
Increase (Decrease) in:	
Accounts Payable	<u>(21,698)</u>
Net Cash Provided (Used) by Operating Activities	
and Net Increase (Decrease) in Cash and Cash Equivalents	\$ 11,304
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>266,799</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$278,103</u></u>

The accompanying notes are an integral part of the financial statements

GREENRIVER REGIONAL EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
June 30, 2000

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The cooperative is a Non-profit Corporation organized to serve the local Boards of Education in the following counties: Adair, Allen, Barren, Breckenridge, Butler, Clinton, Cumberland, Daviess, Edmonson, Grayson, Green, Hart, LaRue, Logan, Meade, Metcalfe, Monroe, Ohio, Simpson, Taylor, Todd, and Warren in addition to the following Independent Schools of Bowling Green, Campbellsville, Caverna, Cloverport, Glasgow, Russellville and Western Kentucky University.

Prior to this reporting period, GRREC was reported as an agency fund in the financial statements of the Bowling Green Independent School District. On April 13, 1999, GRREC filed it's Articles of Incorporation with the Kentucky Secretary of State as a not-for-profit corporation under Internal Revenue Code Section 501(c)(3) organized for educational purposes. On September 24, 1999, GRREC received it's exemption letter from the IRS disclosing it qualifies as a not-for-profit under Section 501(c)(3).

B. Fund Accounting

The Cooperative maintains its accounting records in accordance with the principles of "fund" accounting". Fund accounting is a concept developed to meet the needs of governmental and non-profit entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund reflected in a self-balancing group of accounts which stands separated from the activities reported in other funds. The Cooperative has one bank account which all funds are deposited. A fund balance is maintained for each type of funds received, along with receipts and expenditures for each fund.

C. Basis of Accounting

The records of the Cooperative are maintained, and the budgetary process, on the cash basis method of accounting. Adjustments have been made to the financial statements for accounts receivable and payable to more properly reflect the fund balance of the various funds.

D. Inventories

Supplies and materials are charged to expenditures when purchased.

E. Property and Equipment Group of Accounts

The general fixed assets are recorded as expenditures of the fund from which the disbursement is made. The Cooperative does not maintain a record of the cost of its property and equipment, therefore, no group of accounts is maintained. The Cooperative is familiar with GASB 34 and plan to initiate it as required.

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2000

Note 1 - Summary of Significant Accounting Policies (Cont'd)

F. Total Columns

Total columns on the financial statements are indicated "Memorandum Only," as data in these columns does not present financial position, results of operations, or changes in fund balance in conformity with generally accepted accounting principles. Inter fund elimination's have not been made in the aggregation of this data.

Note 2 - Cash and Cash Equivalents

GRREC's cash and cash equivalents consist of amounts deposited in interest-bearing accounts. GRREC considers demand deposits, money market funds and other investments with an original maturity of 90 days or less to be cash equivalents. As of June 30, 2000, the carrying amount of GRREC's deposits was \$278,103 and the banking institutions' balance was \$341,379. The difference of \$63,276, between GRREC's deposit balance and the banking institutions' balance results from deposits in transit and outstanding checks. Of the banking institutions' balance, \$100,000 was covered by federal depository insurance. The balance of \$241,379 is collateralized by pledged securities, which are held in the name of the financial institution and pledged to GRREC.

Note 3 – Retirement Plans

A. Kentucky Teachers' Retirement System

The Teachers' Retirement System of the State of Kentucky (KTRS) is a multiple-employer public employee retirement system, established and administered by the Commonwealth of Kentucky to provide benefit pension plan coverage for local school districts and other public educational agencies within the state. The system is a component unit of the Commonwealth of Kentucky and is included in the Commonwealth's financial statements as a pension trust fund.

All full time employees occupying a position requiring certification by the state department of education or who have graduated from a four year college or university are covered under the defined benefit plan administered by KTRS. All benefits vest after five years of service.

The payroll for employees covered by the KTRS for the year ended June 30, 2000, was \$133,213. The Cooperative's total payroll was \$208,776.

KTRS covered employees are required by Chapter 161 Section 540(1) of the Kentucky Revised Statutes (KRS) to contribute a fixed percentage of their gross earnings to the pension plan. The Commonwealth makes annual contributions to the pension equal to the amount required by state law. Current contribution rate for the plan are:

<u>Employee</u>	<u>State of Kentucky</u>
9.855 %	9.855 % plus 3.25 %

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2000

Note 3 – Retirement Plans (continued)

A. Kentucky Teachers' Retirement System (continued)

For the year ended June 30, 2000, the Commonwealth contributed a total of \$2,615,867 to KTRS for benefit of participating employees.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The system does not make separate measurements of assets and benefit obligations for individual employers. The actuarial present value of the pension benefit obligation at June 30, 1999, for the System as a whole, was \$12,288,231,000. The System's net assets available for the benefits on June 30, 1999, (valued at cost) were \$11,958,584,000 leaving an unfunded pension benefit obligation of \$329,647,000.

Additional and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky, Comprehensive Annual Financial Report.

B. County Employees Retirement System

The County Employees Retirement System of Kentucky ("System") is a multi-employer public retirement plan created by and operating under Kentucky Law.

The County Employees Retirement System is a defined benefit plan which covers substantially all regular non-certified, full-time employees of each county and school board, and any additional eligible local agencies electing to participate in the System. The Plan provides for retirement, disability and death benefits.

For the year ended June 30, 2000, participating employees contributed 5.00% of creditable compensation to the System.

Employer contribution rates are intended to fund the System's normal cost on a current basis, plus an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. Such contribution rates determined by the Board of Trustees of Kentucky Teachers Retirement Systems each biennium. Participating employers contributed 7.28% of members' non-hazardous compensation for the year ended June 30, 2000. The contribution requirement for the year ended June 30, 2000 was \$9,279, which consisted of \$5,769 from the Board and \$3,510 from the Employees.

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully-vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2000

Note 3 – Retirement Plans (continued)

B. County Employees Retirement System (continued)

credited interest at 3% compounded annually through June 30, 1980, 6% thereafter through June 30, 1986, and 4% thereafter.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefit, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The System does not make separate measurements of assets and benefit obligations for individual employers.

The pension benefit obligation, determined as a part of actuarial valuation, at June 30, 2000, for the System as a whole, was \$4,453,155,000. The System's net assets available for benefits on June 30, 2000 (based on a five – year moving average of market value to book value) were \$6,729,576,000, leaving a funded pension benefit obligation of \$2,276,421,000.

Ten-year historical trend information designed to provide information about the System's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's Annual Report for the fiscal year ending June 30, 2000.

Note 4 - Contingencies

GRREC receives funding from state and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of money advanced or refuse to reimburse GRREC for its disbursements. The amount of such future refunds and unreimbursed disbursement, if any, is not expected to be significant. Continuation of the consortium's programs is predicated upon the grantors' satisfaction that the funds provided are being sent as intended and the grantors' intent to continue their programs.

Note 5 – Insurance and Related Activities

GRREC is exposed to various forms of loss of assets associated with the risk of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. GRREC has purchased certain policies which, are retrospectively rated, which includes worker's compensation insurance.

Note 6 – Accumulated Unpaid Sick Leave Benefits

Upon retirement from GRREC, an employee will receive from the Cooperative an amount equal to 30% of the value of accumulated sick leave. At June 30, 2000, this amount totaled \$24,850 for those employees with 27 or more years of experience. No accrual is recorded in the financial

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2000

Note 6 – Accumulated Unpaid Sick Leave Benefits (continued)

statements due to the contingent nature of this amount. The balance of this is included as a restricted portion of the general fund.

Note 7 - Risk Management

GRREC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Board Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such funds in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss, including the coverage listed in the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8 - Cobra

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put GRREC at risk for a substantial loss (contingency).

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE

BUDGET VS. ACTUAL

June 30, 2000

REVENUES	Budget	Actual	Variance Favorable (Unfavorable)
Title I	\$ 27,423	\$ 27,423	\$ -
ASAP	20,000	19,500	\$ (500)
Administrative/Professional Development	250,000	294,498	\$ 44,498
District/Professional Development	10,578	-	\$ (10,578)
Effective SCHS 1999	83,500	83,500	\$ -
Effective SCHS 1998	8,050	-	\$ (8,050)
Membership Fees	123,515	123,514	\$ (1)
Administrative Fees	155,698	155,687	\$ (11)
Total Reveunes	<u>\$ 678,764</u>	<u>\$ 704,122</u>	<u>\$ 25,358</u>
EXPENDITURES			
Title I	\$ 27,423	\$ 18,687	\$ 8,736
ASAP	20,000	15,084	4,916
Administrative/Professional Development	250,000	216,486	33,514
District/Professional Development	10,578	10,578	-
Effective SCHS 1999	83,500	74,128	9,372
Effective SCHS 1998	8,050	8,050	-
Salaries & Related	246,606	238,116	8,490
Operating	32,295	30,501	1,794
Bond Principle	312	311	1
Total Expenditures	<u>\$ 678,764</u>	<u>\$ 611,941</u>	<u>\$ 66,823</u>
Excess of Revenues Over (Under) Expenditires	<u>\$ -</u>	<u>\$ 92,181</u>	<u>\$ (41,465)</u>
Fund Balance July 1, 1999(GAAP)		208,893	
Adjustment to Conform to Generally Accepted Accounting Principles		-	
Fund Balance June 30, 2000(GAAP)		<u>\$ 301,074</u>	

Kentucky State Committee
for School District Audits
Members of the Green River Regional
Educational Cooperative

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of River Green Regional Educational Cooperative (“GRREC”) as of and for the year ended June 30, 2000, and have issued our report thereon dated November 17, 2000. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained *in* Government Auditing Standards, issued by the Comptroller General of the United States,

Compliance

As part of obtaining reasonable assurance about whether GRREC’s financial statements as of June 30, 2000, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that is reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GRREC’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits
Members of the Green River Regional Educational Cooperative
Report On Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing
Standards (Continued)

This report is intended for the information of the Members of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
November 17, 2000

To The Members
Green River Regional Educational Cooperative

In planning and performing our audit of the financial statements of the Green River Regional Educational Cooperative for the year ended June 30, 2000, we considered the entity's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we become aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report, dated November 17, 2000, on the financial statements of the Green River Regional Educational Cooperative.

We will review the status of these comments during our next audit engagement. We have already discussed these comment and suggestions with the Cooperative's Executive Director and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross PLLC

Audit field work completed -
November 17, 2000

Green River Regional Educational Cooperative
Condition, Recommendations and Comments

- A. Condition: Recording wrong check numbers on Purchase Orders, invoices do not disclose date paid or check number and several instances where an invoice was not attached to the Purchase Order.
- Recommendations: Attach a check stub to the top of the approved Purchase Order with the invoice attached.
- Comments: Have implemented a process whereby the check stub and Purchase Orders are attached to the invoice.
- B. Condition: GRREC is using separate software for billing purposes.
- Recommendation: Combine billing and invoicing to clients into one software system being Quick Books since it is currently being used for payroll and regular disbursements.
- Comments: Will consider all implications of combining systems.
- C. Condition: Noted several instances where sales tax was charged and paid by GRREC since sales tax is not applicable to purchases of GRREC.
- Recommendation: Screen invoices more closely to avoid paying sales tax.
- Comments: Invoices will be screened more closely.